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Avoiding Home Equity Mortgage Scams: Home Improvement Schemes

When it comes time to start that long needed home improvement project, you may want to turn to a home equity mortgage loan to finance your big remodel or small addition. Your home's equity can be a huge resource to you when you need cash for something like home repairs or upgrades.

Equity is the percent of your home that you actually own because of price appreciation, a history of mortgage payments, or a combination of both. It can be calculated by subtracting the remaining balance of your first mortgage loan from the total current appraised value of your home. For example if your home is now valued at \$200,000 and you still owe the bank \$165,000, you have \$35,000 in equity. You can take out a new loan, called a home equity mortgage, borrowing against that equity. This new loan provides you with interest that is tax deductible and cash enough to complete your project.

Unfortunately however some dishonest lenders have taken this popular home improvement loan choice and created a related fraud scheme to take advantage of naïve or uninformed borrowers. When you are looking for the right home equity mortgage, be careful to avoid the "home improvement scam."

This type of deception involves both a contractor and a mortgage lender. The scheme generally begins with an eager contractor who offers to find the necessary funding and lender for the desired home improvement project. Sometimes these contractors even disregard the homeowner's ability to afford a second mortgage.

The contractor is of course in cahoots with a disreputable lender who will provide a home equity mortgage contract that appears attractive, but in reality comes with a high interest rate, fees, or both. The lender is over-zealous to have the borrower sign the papers and close the deal quickly. In this case, you may end up getting terrible terms on a second mortgage and may end up paying much more than the remodel is worth.

Perhaps the most frustrating part of the whole scam is that the contractor is often not actually licensed and does a poor or incomplete job on your home improvement work. Sometimes he will not even do any work at all on your project.

To avoid getting involved in such a mess, realize that these shady characters try to prey on the elderly, disabled, or those with poor credit and low incomes. If you fall into any of these categories, you should especially be on your guard against those trying to scam you.

No matter what your borrowing status or demographics, you should be very cautious in selecting both your home equity mortgage lender and contractor. You should only deal with those that have positive business histories as listed with the Better Business Bureau. Try to get good referral from trusted relatives and friends. You should probably be suspicious of lenders or contractors that contact you first by phone or by a knock on the door. Do not let the lender or contractors select you; make sure you do your homework and choose the right people for your job. Not only is your home improvement project at stake, but your home itself is on the line with a home equity mortgage. So exercise caution to prevent future home loan heartache.